



## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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## **Management's Discussion and Analysis**

### **Overview of the Railroad Retirement Board (RRB)**

#### **Mission**

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

*The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

#### **Major Program Areas**

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in North America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries, but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and

taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is coordinated with the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them more fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the Railroad Unemployment Insurance Act (RUIA) in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

### *Railroad Retirement Act*

Under the Railroad Retirement Act (RRA), retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare at age 65, or earlier if disabled, in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement and survivor benefit programs. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier 2 taxes are based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and legislation enacted in 2001 allows for the investment of railroad retirement funds in non-governmental assets, as well as in governmental securities. This legislation also established the National Railroad Retirement Investment Trust (NRRIT), whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor to represent the interests of labor; three members likewise selected by rail management to represent management interests; and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2007, the RRB trust funds realized a net of \$3.6 billion, representing 39 percent of RRB financing sources (excluding transfers to/from the NRRIT and the increase in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

#### *Railroad Unemployment Insurance Act*

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees.

## Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of two administrative funds, three trust funds, two general funds and two deposit funds.

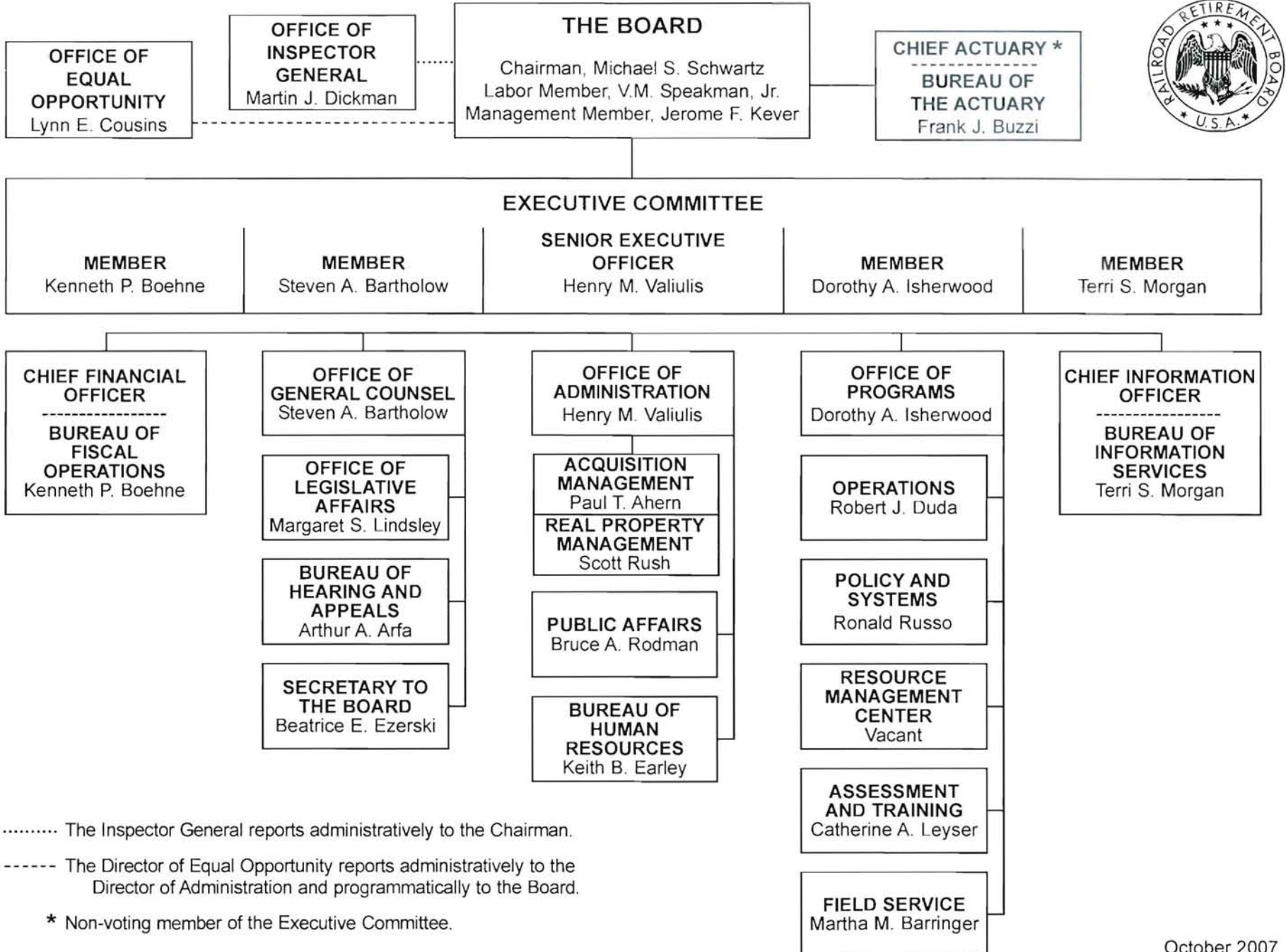
## RRB Organizational Structure

The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance staff, and personnel specialists. The Inspector General employs auditors and investigators to detect waste, fraud, or abuse in the benefit programs.

The RRB's headquarters is located at 844 North Rush Street in Chicago, Illinois. As of September 30, 2007, the RRB field structure was comprised of 3 regional offices and 53 local offices located throughout the United States as shown on page 12.

# U.S. RAILROAD RETIREMENT BOARD



# U.S. RAILROAD RETIREMENT BOARD REGIONAL MAP





## Financial Highlights

Amounts in the Railroad Retirement (RR) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT. Amounts transferred from the SSEB Account to the NRRIT may be used only to pay benefits or to purchase obligations that are backed by the full faith and credit of the United States.

Shown below are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

### Net Position, Financing Sources, and Benefit Payments (In millions)

	2007	2006
<u>NET POSITION AT SEPTEMBER 30</u>		
Social Security Equivalent Benefit Account	\$ 450.4	\$ 321.1
Railroad Retirement Account <u>1/</u>	32,954.2	29,443.8
Railroad Retirement Administration Fund	6.2	5.6
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	100.7	97.3
Administrative Expenses	9.1	9.4
Limitation on the Office of Inspector General	.2	.1
Dual Benefits Payments Account	6.1	8.4
Federal Payments to the Railroad Retirement Accounts	.5	.4
Total	<u>\$33,527.4</u>	<u>\$29,886.1</u>
<u>FINANCING SOURCES FOR FISCAL YEAR</u>		
Social Security Equivalent Benefit Account	\$ 6,010.8	\$ 5,909.0
Railroad Retirement Account <u>2/</u>	7,544.7	5,325.6
Railroad Retirement Administration Fund	111.4	108.9
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	78.0	75.7
Administrative Expenses	(.3)	1.9
Limitation on the Office of Inspector General	7.5	7.5
Dual Benefits Payments Account	86.5	96.0
Federal Payments to the Railroad Retirement Accounts <u>3/</u>	460.1	466.1
Total	<u>\$14,298.7</u>	<u>\$11,990.7</u>
<u>BENEFIT PAYMENTS FOR FISCAL YEAR <u>4/</u></u>		
Social Security Equivalent Benefit Account	\$5,701.6	\$ 5,632.1
Railroad Retirement Account	4,034.4	3,733.1
Railroad Unemployment Insurance Trust Fund --		
Unemployment Insurance	28.5	30.7
Sickness Insurance	46.1	42.5
Dual Benefits Payments Account	86.5	96.0
Total	<u>\$9,897.1</u>	<u>\$ 9,534.4</u>

1/ NRRIT-held net assets are a financing source and are included in the Railroad Retirement Account above.

2/ Change in NRRIT-held net assets is included in the Railroad Retirement Account above.

3/ Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.

4/ Net of recoveries and excludes SSA benefit payments.

The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance and notes which are an integral part of the statements. We also present as required supplementary information a discussion of the actuarial outlook for the railroad retirement program and the Disaggregate of Budgetary Resources.

#### Comparison of Net Cost of Operations and Financing Sources

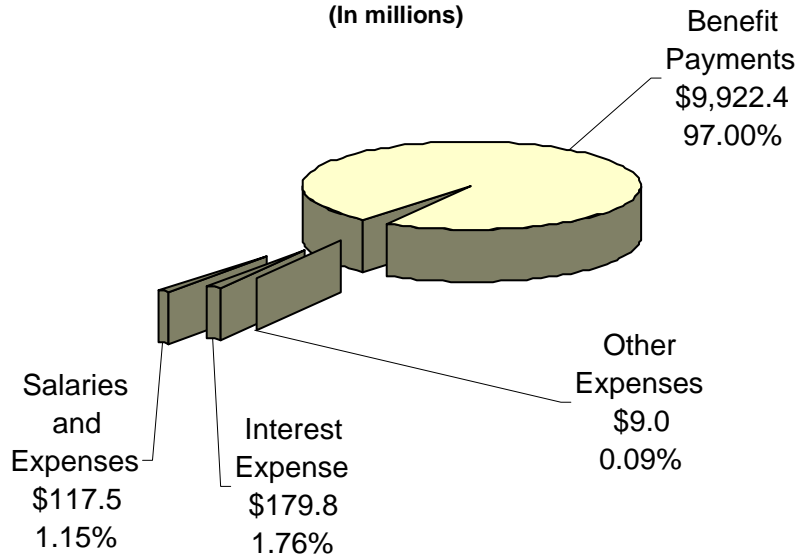
The net cost of operations for fiscal years 2007 and 2006 were \$10,195.1 million and \$9,823.0 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2006 to fiscal year 2007 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2007 and 2006 is shown on the following pages.

#### **NET COST OF OPERATIONS (In millions)**

	FY 2007	FY 2006	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	\$ 179.8	\$ 172.7	\$7.1	4.1%
Salaries and expenses	117.5	115.5	2.0	1.7%
Benefit payments – RRB	9,922.4	9,562.0	360.4	3.8%
Other expenses	9.0	9.0	0	0%
Subtotal	10,228.7	9,859.2	369.5	3.7%
Less: Earned revenues	33.6	36.2	(2.6)	(7.2)%
Net cost of operations	\$10,195.1	\$9,823.0	\$372.1	3.8%

**FY2007  
NET COST OF OPERATIONS**

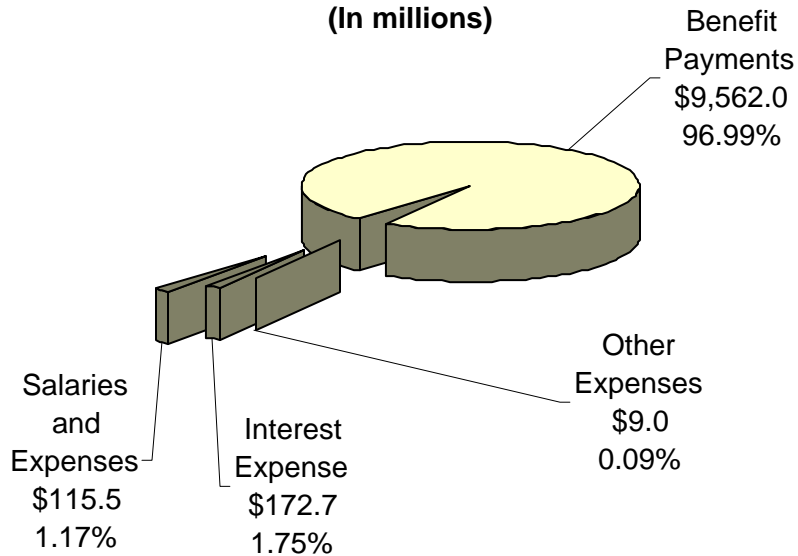
(In millions)



Totals \$10,228.7 million, excluding reimbursements and earned revenues of \$33.6 million.

**FY2006  
NET COST OF OPERATIONS**

(In millions)



Totals \$9,859.2 million, excluding reimbursements and earned revenues of \$36.2 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2006 to fiscal year 2007.

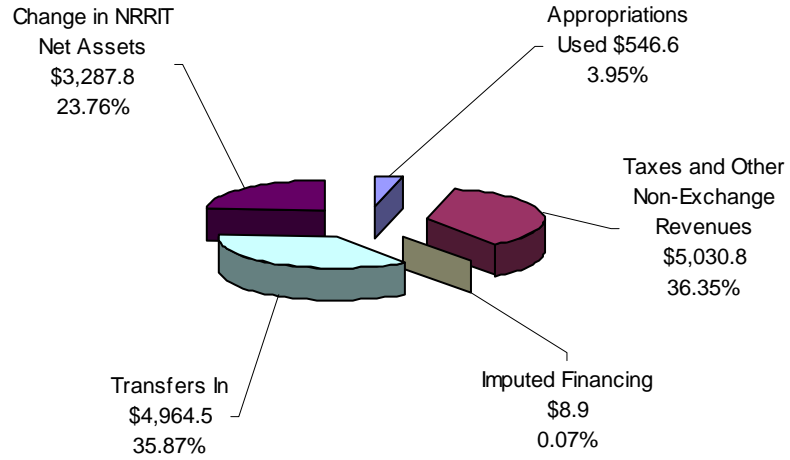
**FINANCING SOURCES**  
(In millions)

	<u>FY 2007</u>	<u>FY 2006</u>	<u>AMOUNT OF INCREASE (DECREASE)</u>	<u>PERCENT OF INCREASE (DECREASE)</u>
Appropriations used	\$ 546.6	\$ 562.1	\$ (15.5)	(2.8)
Taxes and other non-exchange revenues:				
Payroll taxes	4,717.9	4,673.5	44.4	1.0
Interest revenue and other income	58.3	58.9	(0.6)	(1.0)
Carriers refunds – principal*	164.3	12.9	151.4	1,173.6
RUI revenue	90.3	87.4	2.9	3.3
Subtotal	<u>\$ 5,030.8</u>	<u>\$ 4,832.7</u>	<u>\$ 198.1</u>	<u>4.1</u>
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	8.9	8.8	0.1	1.1
Transfers in:				
Financial Interchange, net	3,573.5	3,467.8	105.7	3.0
NRRIT	1,391.0	947.0	444.0	46.9
Subtotal	<u>\$ 4,964.5</u>	<u>\$ 4,414.8</u>	<u>\$ 549.7</u>	<u>12.5</u>
Other:				
Change in NRRIT net assets	<u>3,287.8</u>	<u>1,706.2</u>	<u>1,581.6</u>	<u>92.7</u>
Subtotal	<u>\$13,838.6</u>	<u>\$11,524.6</u>	<u>\$2,314.0</u>	<u>20.1</u>
Less: Transfers out to NRRIT	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	<u>\$13,838.6</u>	<u>\$11,524.6</u>	<u>\$2,314.0</u>	<u>20.1</u>

\* Carriers refunds include the reversal of a contingent liability.

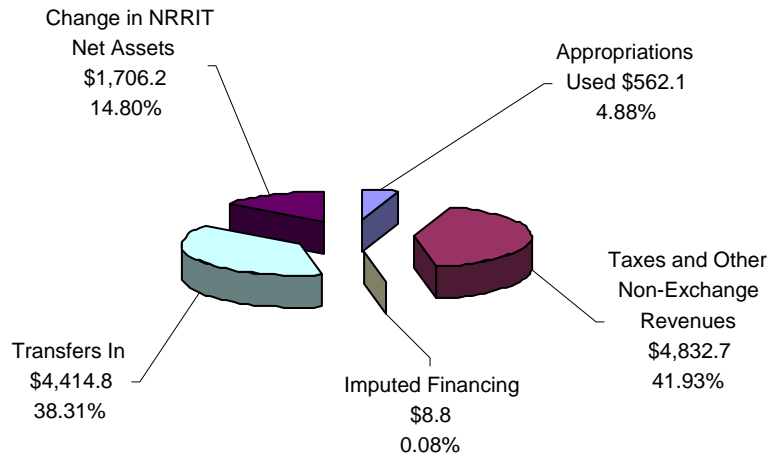
# FINANCING SOURCES (In millions)

FY 2007



**Total Financing Sources \$13,838.6 million.**

FY 2006



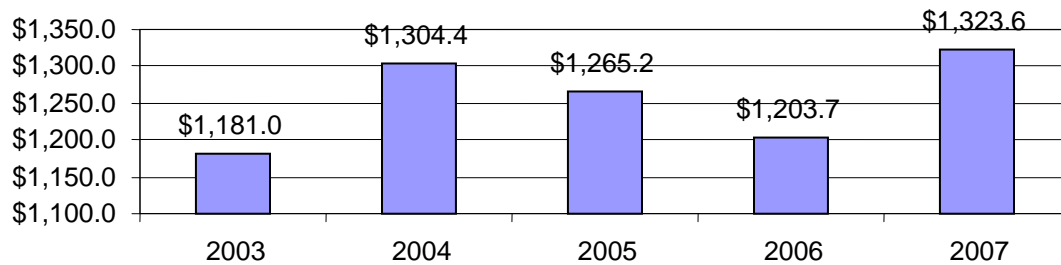
**Total Financing Sources \$11,524.6 million.**

### Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to \$1,323.6 million as of September 30, 2007, from \$1,203.7 million on September 30, 2006 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2003, through September 30, 2007.

#### **INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)**

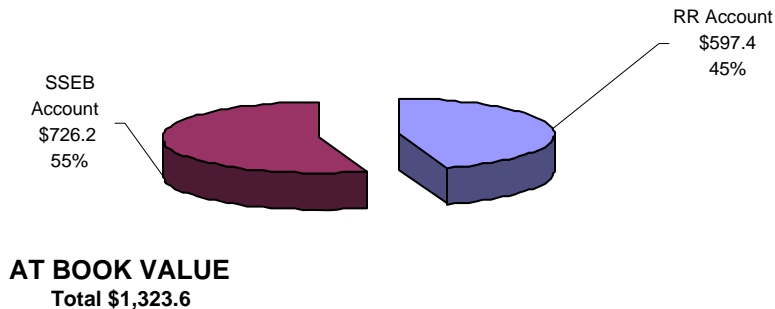
**AT SEPTEMBER 30, 2003 - 2007**  
(In millions, excluding NRRIT net assets)



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2007.

#### **RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY AS OF SEPTEMBER 30, 2007**

(In millions, excluding NRRIT net assets)



#### Railroad Retirement Account

On September 30, 2007 and 2006, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled \$597,361,803 and \$478,075,635, respectively. The balance on September 30, 2007, consisted of \$596,181,000 in 4.375 percent par value specials (with market value equal to face value) maturing on October 1, 2007, and \$1,180,803 in accrued interest. The balance on September 30, 2006, consisted of \$476,712,000 in 4.750 percent par value specials (with market value equal to face value) maturing on October 2, 2006, and \$1,363,635 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

#### Social Security Equivalent Benefit Account

On September 30, 2007 and 2006, the book values of the SSEB Account investments, including accrued interest, totaled \$726,234,578 and \$725,637,871, respectively. The balance on September 30, 2007, consisted of \$724,734,000 in 4.375 percent par value specials maturing on October 1, 2007, and \$1,500,578 in accrued interest. The balance on September 30, 2006, consisted of \$723,754,000 in 4.750 percent par value specials maturing on October 2, 2006, and \$1,883,871 in accrued interest.

#### National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal government and not subject to Title 31, United States Code. The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

### **Program, Operations, and Financial Performance and Results**

During fiscal year 2007 (ended September 30, 2007), railroad retirement and survivor benefit payments totaled \$9.8 billion, net of recoveries. Unemployment and sickness insurance benefit payments totaled \$74.6 million in fiscal year 2007, net of recoveries. During fiscal year 2007, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to almost \$1.2 billion to about 121,000 beneficiaries.

In fiscal year 2007, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2007 included:

- Providing payments to 616,000 retirement and survivor beneficiaries.
- Providing payments to 10,000 unemployment insurance beneficiaries.
- Providing payments to 19,000 sickness insurance beneficiaries.
- Processing 29,741 (through May 2007) retirement, survivor, and disability applications for benefits and then determining eligibility.
- Processing 173,267 (through May 2007) applications and claims for unemployment and sickness insurance benefits.
- Issuing 275,732 (as of June 8, 2007) certificates of employee railroad service and compensation.

During fiscal year 2007, the RRB used 46 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These objectives were accomplished with direct appropriations of \$103.694 million for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2007 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2007, if available. We also reported actual results from prior years, as applicable.

### **Summary of Achievement by Strategic Goal**

**Strategic Goal I: Provide Excellent Customer Service.** We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. For fiscal year 2007, we expect that benefit payment accuracy rates will exceed 98 percent and that nearly all timeliness goals will be met.



**Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources.** The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2007, we expect to meet or exceed our performance goals.

### **Strategic Goals and Objectives**

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in the processing of retirement and survivor benefits, while embracing new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of our operations related to initial railroad retirement applications, unemployment and sickness insurance benefits, survivor applications and disability applications. The RRB's website ([www.rrb.gov](http://www.rrb.gov)) has also been very well-received by the public.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from legislative changes and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, we have established two strategic goals on which we will focus our efforts. These goals form the basis of our Strategic Plan for 2006-2011.

#### **Provide excellent customer service**

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. We have established four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

#### **Serve as responsible stewards for our customers' trust funds and agency resources**

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. We have established four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the RRB under the RRSIA with respect to the activities of the NRRIT.

The RRB has committed to a number of management strategies that will guide our efforts to accomplish our stated strategic goals and objectives. These strategies, which will encompass many areas, also reflect the President's Management Agenda, which is designed to promote management improvements throughout the Federal government in six key areas:

- Expanded E-Government
- Budget and Performance Integration
- Financial Management Improvements
- Strategic Management of Human Capital
- Competitive Sourcing and Partnerships
- Freedom of Information Act Planning, Processing and Reporting

Additional information on the President's Management Agenda is available on the Internet at [www.results.gov](http://www.results.gov).

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

Validation of Performance Information. In fiscal year 2007, RRB implemented comprehensive new administrative procedures to ensure that reported performance information is accurate and valid. Administrative Circular RRB-2 establishes standards and assigns responsibility for collecting, documenting, validating, certifying, reporting and retaining information related to the actual performance data reported for objectives in RRB's Annual Performance Budget and Government Performance and Results Act Report.

The procedures require that reporting managers develop and maintain written procedures for:

- collecting data related to each objective,
- testing and validating performance data to ensure accuracy,
- retaining source documents for future reference, and
- attesting to the accuracy of performance information reported.

Members of RRB's Planning Council review the certified performance data and attestations for completeness and to identify any problems. The Planning Council also compiles the performance data for agency reports, and monitors compliance with the requirements of Administrative Circular RRB-2.

Members of RRB's Executive Committee review performance issues related to their areas of responsibility and assign follow-up action, as necessary. The Executive Committee also reviews and approves performance reports before releasing the drafts for approval by the Board Members.

The following begins a discussion of our key performance indicators.

### Discussion of Key Performance Indicators

The RRB has identified the following 10 key performance indicators, which represent our most important responsibilities.

#### **Key performance indicator 1: Initial recurring retirement payment accuracy** **(Objective I-A-1a)**

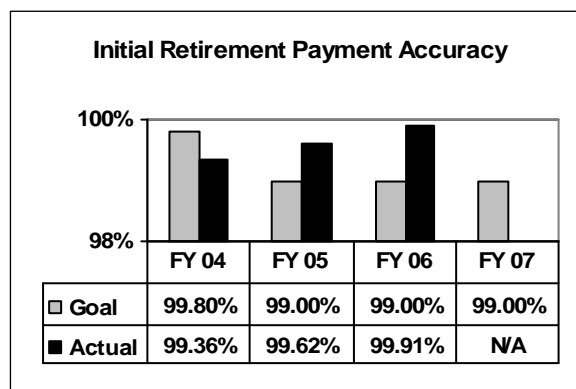
Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

***FY 2007 goal:*** 99.00%  
***Our FY 2007 performance:*** Not available

Full-year data will be available in fiscal year 2008.

***FY 2006 goal:*** 99.00%  
***Our FY 2006 performance:*** 99.91%

**We met our goal.** Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments. Automation will become more critical in this area as experienced personnel retire in the coming years.



**Data definition:** This is the percentage of the dollar value of initial recurring retirement benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

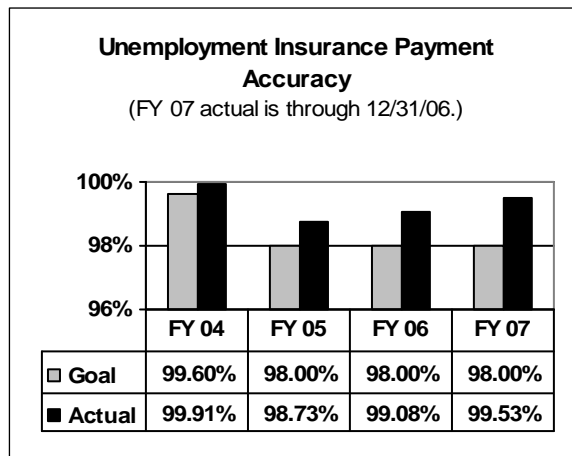
**Key performance indicator 2: Unemployment insurance payment accuracy**  
**(Objective I-A-2a)**

Our overall strategic goal is to achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99 percent.

***FY 2007 goal:*** 98.00%  
***Our FY 2007 performance:*** 99.53%  
through the 1st quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the first quarter of fiscal year 2007. Full-year data will be available in fiscal year 2008.

***FY 2006 goal:*** 98.00%  
***Our FY 2006 performance:*** 99.08%



**Data definition:** This is the percentage of the dollar value of unemployment insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

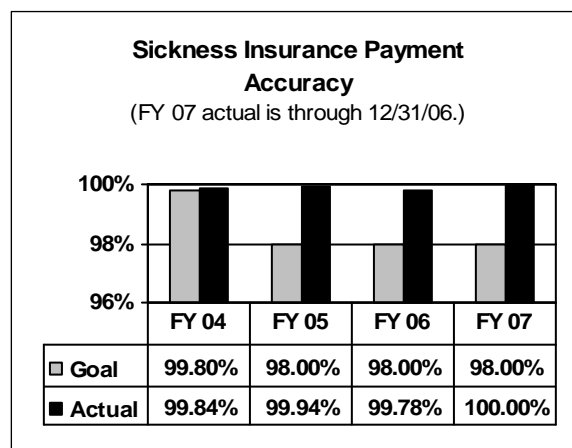
**Key performance indicator 3: Sickness insurance payment accuracy (Objective I-A-2b)**

Our overall strategic goal is to achieve a railroad sickness insurance benefit payment accuracy rate of at least 99 percent.

***FY 2007 goal:*** 98.00%  
***Our FY 2007 performance:*** 100%  
through the 1st quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the first quarter of fiscal year 2007. Full-year data will be available in fiscal year 2008.

***FY 2006 goal:*** 98.00%  
***Our FY 2006 performance:*** 99.78%



**Data definition:** This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

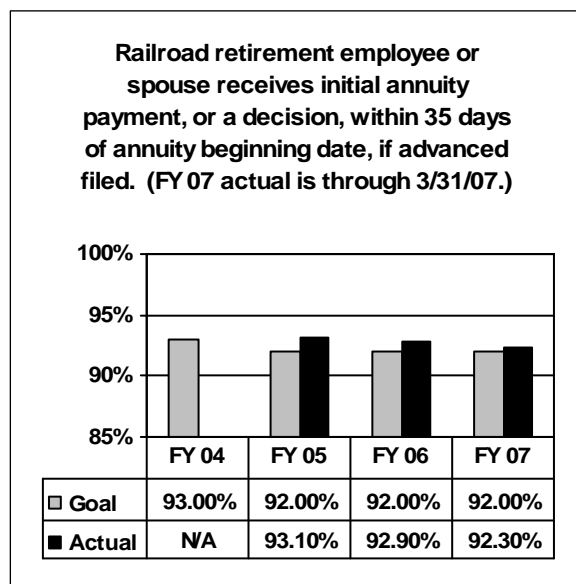
**Key performance indicator 4: Timeliness of initial Railroad Retirement annuity payments, when advanced filed (Objective I-A-5)**

**FY 2007 goal:** 92.00%  
**Our FY 2007 performance:** 92.30%  
 through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

**FY 2006 goal:** 92.00%  
**Our FY 2006 performance:** 92.90%

**Data definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. Nevertheless, we have historically reported our performance as the percent of retirement age and service applications for which all RRB processing is completed within 30 days, allowing 5 days to account for handling by the Department of the Treasury (Treasury) or U.S. Postal Service (USPS). An audit by the RRB's Office of Inspector General (OIG) (05-05, dated May 17, 2005), however, found technical problems with the data. Beginning in fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time, but only measures the retirement adjudicative processing time. There are usually several days between the end of the retirement adjudicative process and the point where the payment is certified to the Treasury, or the letter is released to the USPS. We believe that the impact of this flaw is mitigated by the fact that while we allow 5 days for Treasury and USPS handling, within the 35-day customer service standard, in fact, the Treasury actually deposits funds within 2 business days of receipt of the RRB's authorization for payment. Similarly, the USPS standard is to deliver first class mail within 3 business days. Agency review of the same sample data the OIG used in the audit found that 92.93% of the advanced filed cases were authorized for payment within 32 days of the annuity beginning date. The percentage goes up to 93.7% at 33 days. Thus, it is reasonable to assume that the customer would have received payment or a letter within the 35-day published standard.



We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to annotate our performance data to reflect that our tracking includes only adjudicative processing time. Overall, though, we believe that the data reported remains a fair representation of the basic service our customers receive.

The OIG also found faults in the prior year reports, the most significant of which improperly categorized cases and understated the number of advanced filing cases. As a result, we have excluded performance data for years prior to fiscal year 2005.

In addition, the RRB's OIG found a reporting flaw in our measurement process for 3<sup>rd</sup> party payment cases which affected 2 out of 150 cases in the sample. We are working on the correction of this system problem. Until then, the performance level reported is inaccurate for the few cases of this type processed during the reporting period.

**Key performance indicator 5: Timeliness of initial Railroad Retirement annuity payments, if not advanced filed (Objective I-A-6)**

**FY 2007 goal:** 95.00%  
**Our FY 2007 performance:** 96.40%  
 through the 2<sup>nd</sup> quarter

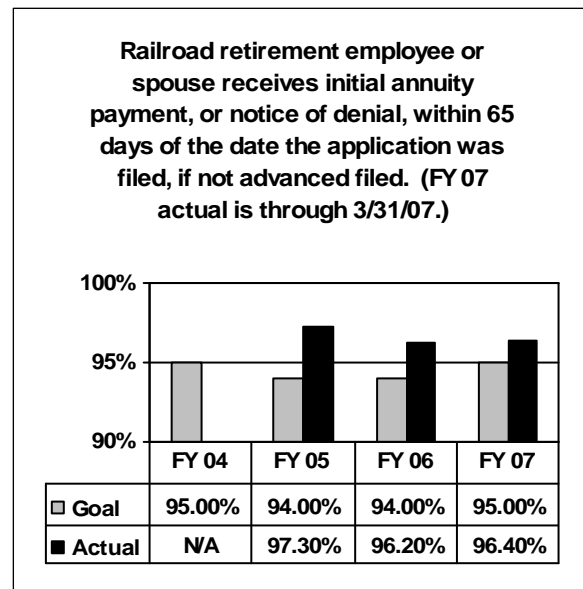
**We are exceeding our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

**FY 2006 goal:** 94.00%  
**Our FY 2006 performance:** 96.20%

**Data definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of retirement age and service applications where RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling. An audit by our OIG (05-05, dated May 17, 2005) found several technical problems with the data which are described in the discussion of the previous key indicator. For fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time but only measures the retirement adjudicative processing time. We believe, however, that the results remain a fair representation of the service our customers receive. Using sample data for July 2004, the OIG found that 95.19% of the non-advanced filed applications were processed within the stated 60-day measure. The agency would have reported that 98.65% for the same sample period. Thus, actual performance still exceeded the targeted level. Note that, while the issues described in detail for Key Indicator 4 above apply to these non-advanced filed cases as well, the net impact on actual performance levels was not as significant.

We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to annotate our performance data to reflect that our tracking includes only adjudicative processing time.

The OIG also found faults in the prior year reports, the most significant of which improperly categorized cases. As a result, we have excluded performance data for years prior to fiscal year 2005.



**Key performance indicator 6: Timeliness of new survivor benefit payments**  
**(Objective I-A-7)**

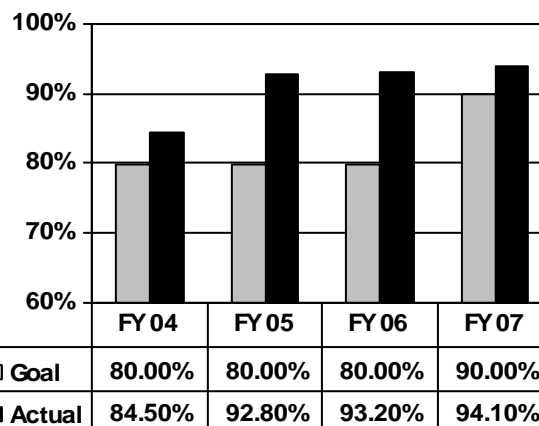
**FY 2007 goal:** 90.00%  
**Our FY 2007 performance:** 94.10%  
 through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

**FY 2006 goal:** 80.00%  
**Our FY 2006 performance:** 93.20%

**Data definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling.

Survivor annuitant not already receiving a benefit receives initial payment, a decision, or notice of application transfer to SSA within 65 days of the annuity beginning date, or date filed. (FY 05 is for 4/05 through 9/05 only. FY07 is through 3/31/07.)



In fiscal year 2005, measurement and reporting inconsistencies, which resulted in a net understatement of actual performance, were identified by the RRB's OIG. These inconsistencies were corrected effective with April 2005 data. Results reported for fiscal year 2005 represent the last 6 months of the year only.

**Key performance indicator 7: Timeliness of spouse to survivor benefit payment conversions**  
**(Objective I-A-8)**

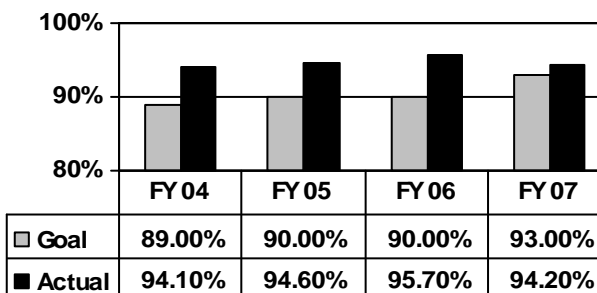
**FY 2007 goal:** 93.00%  
**Our FY 2007 performance:** 94.20%  
 through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

**FY 2006 goal:** 90.00%  
**Our FY 2006 performance:** 95.70%

**Data definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 30 days, allowing 5 days to account for Treasury or USPS handling.

Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death. (FY 07 actual is through 3/31/07.)



**Key performance indicator 8: Timeliness of unemployment or sickness insurance payments (Objective I-A-12)**

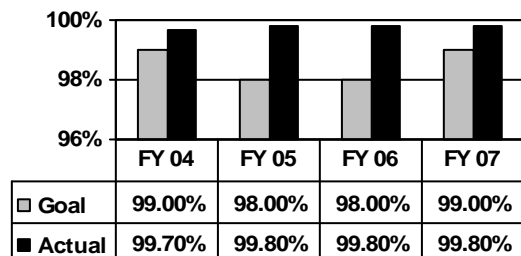
**FY 2007 goal:** 99.00%  
**Our FY 2007 performance:** 99.80%  
 through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

**FY 2006 goal:** 98.00%  
**Our FY 2006 performance:** 99.80%

**Data definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of claims where all RRB processing is completed within 10 days, allowing 5 days to account for Treasury or USPS handling.

Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt.  
 (FY 07 actual is through 3/31/07.)



**Key performance indicator 9: Timeliness of disability decisions (Objective I-A-13)**

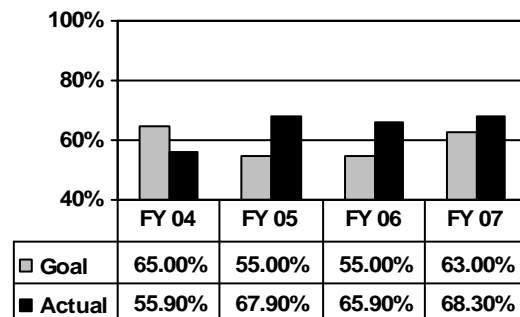
**FY 2007 goal:** 63.00%  
**Our FY 2007 performance:** 68.30%  
 through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** We have been able to exceed our goal due to an increase in the number of staff resources dedicated to the disability workload and the timely performance by the contractor for consultative medical examinations needed to make disability decisions.

**FY 2006 goal:** 55.00%  
**Our FY 2006 performance:** 65.90%

**Data Definition:** This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 100 days, allowing 5 days to account for USPS handling.

Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed.  
 (FY 07 actual is through 3/31/07.)





**Key performance indicator 10: Return on investment in program integrity activities**  
**(Objective II-B-1)**

**FY 2007 goal:** \$3.80 : \$1  
**Our FY 2007 performance:** Not available

FY 2007 data will be available in FY 2008.

**FY 2006 goal:** \$3.80 : \$1  
**Our FY 2006 performance:** \$5.36 : \$1

**We exceeded our goal.** Our fiscal year 2006 goal was to achieve a return of \$3.80 for each dollar spent on program integrity activities. We achieved a rate of return of \$5.36 for each dollar spent.

As part of our fiduciary responsibilities to the rail community, we must ensure that the correct amount of benefits is being paid to the right people. We match our benefit payments against SSA's earnings and benefits database, the Centers for Medicare & Medicaid Services' utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via computer tapes, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the RRB's OIG for investigation. After investigation, the OIG may pursue more aggressive collection methods, which include civil and criminal prosecution.

**Data definition:** This is the ratio of the sum of the dollar recoveries and savings to the labor dollars spent.

